

SOUTH COAST HOMEOWNERS ASSOCIATION

FINANCIAL TOPICS MEETING MATERIALS

OCTOBER 21, 2013

TOP 10 TIPS AND CONTROLS FOR BOARD MEMBERS AND TREASURERS

Gayle Cagianut, CPA

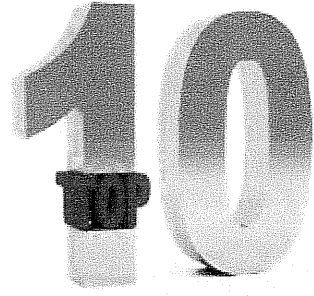
RESERVE STUDIES AND MAINTENANCE

Les Weinberg, RS

**HOA FINANCIAL DATA COMPARISONS RESEARCH PROJECT
2014 BUDGET NOTES**

Michael J. Gartzke, CPA

**Financial Matters
Matter!**



The TOP 10 –

Tips & Controls

For

Board Members &

Treasurers

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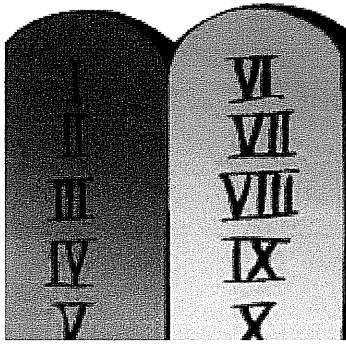


South Coast Homeowners Association meeting – Goleta, CA – October 21, 2013



Tips for Board members and Treasurers...What should you do to manage the financial affairs in your communities??

1. **Spend more than 3 minutes on the Treasurer's Report at the monthly board meetings.**
 - **Understand the Financial Statements, ask questions**
 - **Are there "Due to/From" Reserves on the Balance Sheet?**
 - **Are you over or under budget significantly, if so, why?**
 - **Is there Net Income or Net Loss on the Income Statement?**
 - **Is there 1-3 months of monthly expenses in Operations?**
2. **Are your financial statements "Cash Basis" or Accrual? Understand the Difference.**
 - **Primarily Accounts Receivable. Track them regardless of Cash or Accrual.**
3. **Two board signers on reserve accounts**
 - **Board access to reserve accounts (signatories)**
 - **Reserve cash accounts kept separate from operating**
4. **Understand your reserve study and how it compares to your budget.**
 - **If you can't budget for the reserve allocation recommendations, explain why in the minutes.**
 - **If you can't make the budgeted allocation, explain why, and how to repay.**
5. **Accounts Receivable Bad Debts -- Track the AR Delinquencies report, approve the write offs in the minutes.**
6. **Review the bank statements and reconciliations at least quarterly if not monthly.**
7. **Clearly classify & segregate operating and reserve expenses.**
 - **Approve reserve expenses in the minutes. (Dollar amount, vendor)**
8. **Consider having an annual review of your financial statements by a CPA- who knows this industry.**
9. **File a tax return every year**
 - **Pay tax on the interest income, user fees & nonmembership income**
10. **Become informed. Attend SCHOA meetings. Review C&C's FAQs (100) on their website! www.hoacpa.com**



The Ten Commandments of Internal Control for Associations

- 1. Separate accounting functions whenever possible.*
- 2. Consider oversight of the financial functions an important Board responsibility.*
- 3. Receive and review financial statements at least quarterly. Question items that significantly differ from the budget. Record your findings in the Board meeting minutes.*
- 4. Review bank statements and reconciliations on ALL bank accounts at least quarterly. Consider getting a separate copy of bank statement with copies of cancelled checks sent to a second person.*
- 5. Document the receipt process of "per use" and other income that is not routine. Implement appropriate controls. Consider random verification.*
- 6. Insist that invoices, or other types of verification of the expense, is necessary before paying a bill. Check requests not adequate. If it is in-store charge or credit card, someone other than the person making the charge must review and approve.*
- 7. Require two board signers on reserve withdrawals. Do not allow telephone or online withdrawals of reserve funds.*
- 8. Update signature cards in a timely manner whenever there is a change in board members or change in management personnel. The board may want to consider having a board member deliver/mail the signature cards to the bank.*
- 9. Require approval of write-offs of A/R balances over a certain amount by the board.*
- 10. ALWAYS keep an attitude of skepticism. Never say "fraud couldn't happen in my association" or "That person would NEVER do that!" Have controls in place so that someone is less tempted to use Association monies.*

SOUTH COAST HOMEOWNERS ASSOCIATION

250 Moreton Bay Lane, Goleta, California

Financial Issues for HOA's - October 21, 2013

MAINTENANCE DEFICIENCIES SEEN DURING INSPECTIONS

- 1) Roofing
- 2) Painting
- 3) Gutters & Downspouts
- 4) Boilers / Water Heaters
- 5) Mechanical Equipment

IMPACT OF "O" INTEREST RATES ON RESERVE FUNDS

- 1) Laddering Investments
- 2) Future Interest Rates

IMPORTANCE OF IMPLEMENTING RECOMMENDATIONS IN THE RESERVE STUDY

- 1) Compliance with the California Civil Code
- 2) Equity between current owner and future owners

NEED FOR SMALL ASSOCIATIONS TO CONDUCT A RESERVE STUDY / ADOPT A FUNDING PLAN

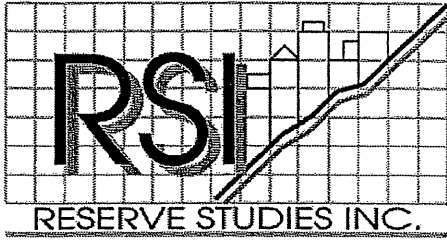
- 1) All Common Interest Developments, Unless no common area
- 2) Prudent fiscal management

HOW OFTEN ARE RESERVE STUDY UPDATES REQUIRED

- 1) Reserve Study Update with Site Visit required at least once every 3 years
- 2) Reserve Study Update without Site Visit required for years in-between site visit updates

DOES THE CPA UPDATE THE RESERVE STUDY

- 1) Anyone can update the previous study, provided the update meets all of the requirements of the California Civil Code.
- 2) The most cost effective method would be to retain the Reserve Provider that conducted the previous study.



"Your Future is Our Business"

Maintenance.....It's a Paying Job.

Reserve Study providers are often asked the question...how long will it last? And our standard answer is...it depends!

There are a number of factors that dictate how long a particular component will last, including:

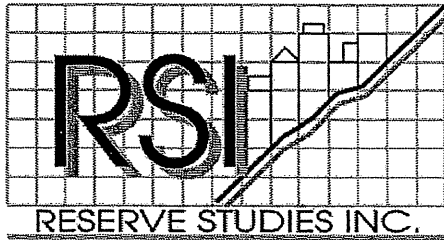
- 1) **Type and Grade of Material/Equipment** – generally, the higher the grade, the longer it will last; a high grade fiberglass based composition shingle roof can last 50 to 75% longer than a lower grade asphalt based composition shingle roof.
- 2) **Environment** – components will react differently depending on the environment they are placed. For instance, a standard membrane deck surface placed in direct sun light in a desert environment will not have the same useful life expectancy as the same material placed in direct sunlight in an ocean environment.
- 3) **Usage** – the greater the use, the lower the life expectancy. A standard overhead gate operator placed in a small association will typically last longer than one placed in a large association simply because there is greater wear and tear from the increased number of users.

However, in most circumstances, the biggest factor in a component achieving the longest useful life is – **Maintenance.**

Section 1365.5 (e) of the California Civil Code states, "repair, replace, restore or maintain". We often forget about that "maintain" portion. While it is permissible to use Reserve Funds for maintenance related items, in fact many studies have components for such items as over-hauling boilers and other heavy equipment, it is advisable to set up the operating budget to include funding of most maintenance items. Proper maintenance can extend the useful life of most components, make them more reliable, and reduce the annual cost (depreciation) of the component. Example: If a component costs \$ 5,000 and has a useful life expectancy of 10 years, then the annual cost is \$500 ($\$ 5,000 \div 10 = 500$). However, if you have an aggressive maintenance program, and can extend the components life by just 20%, you can reduce the annual cost to \$ 416 ($\$ 5,000 \div 12 = 416.66$), this, of course, assumes you are spending less than \$84 a year (\$500 less \$416) on maintenance, however, it is rare when you spend more on maintenance than cost savings generated. As the old saying goes "*a ounce of prevention is worth a pound of cure.*"

Some of the beneficial and cost effective maintenance opportunities we have in our communities include the following:

Gate Operators, Exhaust Fans and similar Mechanical Equipment – regular lubrication of moving parts is essential to maintain smooth, efficient operation of mechanical equipment (helps keep energy usage costs down as well). Replacing worn or damaged parts before they fail will ensure the equipment operates properly, and avoid costly and inconvenient breakdowns. Most equipment maintenance companies charge nominal fees for inspection and lubrication services. Replacement parts are generally calculated on a time and materials basis.



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Heating, Venting and Air-Conditioning Equipment –Lubricating moving parts, replacing/cleaning air filters, adjusting coolant, and replacing damaged insulation are the most important. This will ensure efficient operation (again, keeping energy usage low), and help extend the equipment's longevity. As noted above, most property maintenance companies charge nominal fees for these services.

Painting – Minor touch-up painting between repainting cycles can go a long way towards extending the useful life of the components (i.e. wood siding/trim, wrought iron, etc.), and help the component keep that "freshly painted" look. It is always a good idea to purchase plenty of extra paint during repainting cycles, thus, touch-up painting can often be done for little or no cost.

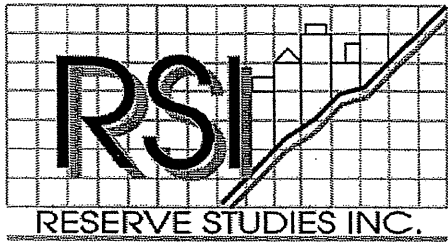
Wood and Wrought Iron Fencing – Its important to divert sprinkler spray away from, and reduce the soil contact with, these components. Touch-up paint and sealant are also important. Wood, and particularly metal, do not perform well when exposed to the elements. Bare spots can rapidly deteriorate if left unchecked. Aggressive maintenance can keep repairs to a minimum (replacing just a few boards, or small welding repairs). Routine maintenance can often be built into existing landscape or property maintenance contracts with little or no up-charge.

Roofing – Roof maintenance will vary depending upon the type and material of your roofing system (many communities have multiple roofing types). Some of the basics include regularly sealing roof penetrations, such as plumbing and heating vents. The majority of roof leaks are related to flashings at roof penetrations. These areas should be caulked with an asphalt or acrylic sealant at least once a year (generally in the late summer or fall). All flashings should be checked for rust and deterioration. Small rust spots can be sealed with metal primer and some touch-up paint. Larger areas of deterioration should be replaced to prevent leakage. The roof and any gutters/downspouts should be cleared of debris at least twice a year (in the winter and fall). Excess debris can cause water to "dam" on the surface, promoting leakage. It can also hold moisture, which may lead to early deterioration of the material. Also, excessive foliage can be nesting grounds for vermin and other pests. Most roofing companies offer annual or semi-annual roofing inspection and maintenance contracts for reasonable fees. Our experience has shown this is one of the better property maintenance investments available.

Some specific maintenance suggestions, based on roofing material include:

Concrete or Clay Tile – Repair or replace any loose, missing or broken tile (hairline cracks are OK, but not dislodged or cracked tile that exposes the underlayment). Add mortar where needed at the ridge and hip caps. Be sure bird stops (if present) are in place and free of damage.

Asphalt, Composition, or Wood Shingle - Check the ridge caps for deterioration, as they usually age quicker than the field shingle; replacement of the ridge caps is often needed prior to complete replacement. Replace any damaged areas in the field (more common on wood products).



"Your Future is Our Business"

Cap Sheet, Modified Cap Sheet or Bitumen – Examine the seams to be sure they are tight and free of openings; apply sealant as needed. Relieve any air pockets or blisters (as trapped moisture can deteriorate wood substrate). Clear surface drains of dirt or silt, which often settles near the openings.

Built-Up, or Rock Roofs – Repair any damaged areas (typically the asphalt will deteriorate when exposed to the sun's UV rays), and apply a generous amount of replacement material. Be sure gravel stops and other flashings are in place and free of damage.

Budgeting for proper maintenance of a community association is an essential part of a Board of Directors fiduciary duty to protect their member's investment. Generally, for just a few cents per day, per component, one can keep a property looking and functioning properly, and thus keep equipment down-time to minimum, have an attractive and vibrant community that you can be proud of, and most important, alleviate the need for that *pound of cure!*

Les Weinberg, RS, MBA

HOA FINANCIAL DATA COMPARISONS AND TRENDS ONGOING RESEARCH PROJECT

SOUTH COAST HOA PRESENTATION OCTOBER 21, 2013

By Michael J. Gartzke, CPA

I have been providing accounting services to homeowners associations since 1986. Since that time I have performed many review engagements for associations in southern Santa Barbara County (primarily from Goleta, Santa Barbara, Montecito and Carpinteria). Over the years, I had received numerous inquiries from board members, managers, etc. as to how their association(s) compared to other associations in the area. At the time, I could share my perceptions of the trends and how their associations compared with others, but I did not have data to support my opinion.

To address this issue, in 2005, I developed a spreadsheet that captured annual data from each association's reviewed financial statements. From that database, I prepared a one-page analysis showing minimum, maximum and median amounts for a number of association financial categories such as cash per unit, fund balances, expenses by major category, regular monthly assessment, reserve fund assessment and more. During the review engagement, I would update the spreadsheet and print the analysis showing that association's data against the totals at that time.

Several years later, I added a pie chart showing how the association's assessment was allocated among five major categories – utilities, insurance, common area maintenance, general and administrative expenses and reserve funding. I also added a bar chart showing their data, measured on a per unit per month basis, compared to the median (half above and half below) so that I could easily show an association if they were above or below the median amounts of their peers.

Comparing one association to another can be difficult. I use these comparisons to highlight the differences between them. For example, an association might have master-metered interior water included in their assessment, increasing utility costs. A planned development may not carry insurance on the dwelling units. Another may have security services at its entrance gate. Common area (and reserve components) can be vastly different as well. Not all associations have pools. Some are built on public streets while others have extensive private roads and parking areas. Some associations are responsible for building maintenance. Others do not.

It has been eight years since I started the database of my client associations. There were 55 review engagements at that time. There are now 69. Fifty of the original 55 are still in the database so 19 have been added since then. The median sized association has changed very little, ranging between 45 and 50 units during the 8-year period. The average year built is 1979-1980.

A common complaint among association members is that their assessment is increasing at a rate greater than the Consumer Price Index. Does the mix of utility

costs, insurance, common area services and aging buildings correlate to the CPI to some degree?

To start with, here is the data description and CPI rates for tax years 2005- 2012.

	2005	2006	2008	2009	2010	2012	Percent Change
Number of Associations	55	60	63	64	68	69	
Median Size (units)	50	45.5	48	47	49	50	
Average/Median Year Built	1979	1979	1980	1979	1980	1980	
CPI - LA Urban/Clerical	188.5	196.5	202.9	212.3	211	228.9	21.4%

- Each annual column will contain the prior year's historical data from the review engagements. For example, the 2012 column contains year ended December 31, 2011 data and fiscal years ending in 2012.

The tables that follow track the data and trends associated with common measurements from association financial statements.

- Cash
- Assessments Receivable
- Fund Balances
- Assessment Income
- Investments Rate of Return
- Operating Expenses
 - Utilities
 - Common Area Maintenance
 - Insurance
 - General and Administrative

Cash per Unit:	2005	2006	2008	2009	2010	2012	Percent Change
Median	\$2,966	\$3,093	\$3,912	\$3,830	\$4,301	\$4,925	66.1%
Average	3,580	4,396	4,536	5,838	6,098	6,106	70.6%
75 Percentile	4,175	5,291	5,855	6,078	6,514	7,026	68.2%
25 Percentile	2,125	2,125	1,954	2,543	3,062	3,757	76.8%

Combined cash (operating + reserve) balances improved substantially. The median association cash balance increased by nearly \$2,000 per unit. The "75 Percentile" line

represents the amount where 75 percent of the associations are at or below. The "25 Percentile" line represents the amount where only 25 percent of the associations are below.

Assessments Receivable:

Outstanding (delinquent) assessment balances have grown substantially in the past six years. Here is how the assessment receivable balance has increased since I started the database.

Date	HOAs	Units	Receivable	\$/unit
12/31/05	55	4,224	\$100,388	\$23.77
12/31/06	60	4,395	160,147	36.44
12/31/08	63	4,636	351,914	75.91
12/31/09	64	4,764	476,888	100.10
12/31/10	68	5,105	575,671	112.77
12/31/12	69	5,239	555,276	105.99

Assessment receivable balances per unit have increased 345% in the past seven years. In 2011, these associations either wrote off or reserved \$138,000 in bad debt expense and another \$100,000 in 2012. In a hopeful sign, delinquent receivables are down to \$481,000 as of September 30, 2013.

Operating Funds per Unit	2005	2006	2008	2009	2010	2012	Percent Change
Median	\$200	\$171	\$215	\$260	\$469	\$589	194.5%
Average	248	280	197	312	591	773	211.7%
75 Percentile	361	414	474	657	815	1,137	214.9%
25 Percentile	44	32	8	59	167	274	522.7%
Negative – Associations	12	14	16	12	6	7	

Operating Funds are operating assets (cash, net receivables, prepaid expenses) less operating liabilities (accounts payable, prepaid assessments, funds borrowed from reserves, etc.). Substantial improvement was noted here as well. The number of associations with negative operating fund balances (liabilities greater than assets) decreased from 16 at the end of 2008 to 7 currently.

Reserve Funds per Unit	2005	2006	2008	2009	2010	2012	Percent Change
Median	\$2,658	\$2,886	\$3,362	\$3,543	\$3,893	\$4,468	68.1%
Average	3,199	4,308	4,222	5,689	5,684	5,452	70.4%
75 Percentile	3,664	4,836	5,160	5,848	5,810	7,099	93.7%
25 Percentile	1,832	1,972	1,937	2,302	2,673	3,423	86.8%
Negative balances	1	0	2	0	0	1	

Nearly all of the associations have a professional reserve study prepared in accordance with the Civil Code. Most are prepared by a reserve specialist. Most are funding in accordance with the reserve specialist's recommendation. In spite of the current state of the economy and the difficulty in collecting assessments, these associations have substantially increased their reserve funds in the past seven years as more associations have become aware of the importance of reserves. The median association in the sample was built in 1980. They are now 33 years old. Half are older than that.

Income and Expenses:

Operating Assessment:							
Per Unit Per Month	2005	2006	2008	2009	2010	2012	Percent Change
Median	\$229	\$234	\$273	\$281	\$287	\$290	27.0%
Average	247	295	325	334	346	331	34.0%
75 Percentile	275	313	330	354	371	353	28.3%
25 Percentile	176	177	217	226	240	225	27.8%
Percent of Total Assessment	75.1%	77.2%	75.4%	74.9%	74.5%	75.4%	

To keep pace with rising costs and to increase fund balances, operating assessments increased between 27% (median) and 34% average during the seven year period. Increases leveled off over the past 3 years. Operating assessments make up approximately 75% of the total assessment but this allocation can fluctuate between 50 and 90% depending upon the services provided and the maintenance obligations of the association.

Reserve Assessment:							
Per Unit Per Month	2005	2006	2008	2009	2010	2012	Percent Change
Median	\$78	\$74	\$86	\$101	\$101	\$118	51.2%
Average	79	78	96	106	108	115	45.6%
75 Percentile	104	104	132	135	142	151	45.2%
25 Percentile	53	50	60	68	69	72	35.8%
Percent of Total Assessment	24.9%	22.8%	24.6%	25.1%	25.5%	24.6%	

Allocations for the reserve portion of the regular assessment increased by amounts greater than that of operating assessments. The median amount increased \$40 per month while the average increased \$36.

Total Assessment:							
Per Unit Per Month	2005	2006	2008	2009	2010	2012	Percent Change
Median	\$301	\$318	\$364	\$377	\$394	\$393	30.6%
Average	327	373	420	440	454	446	36.3%
75 Percentile	390	405	480	495	505	495	26.9%
25 Percentile	245	238	290	300	320	325	32.6%

This is probably the most popular metric reported to the associations each year – how their regular assessment compares to the median. Since 2005, the median has increased by \$92 per month, a 30% increase. The CPI for the same period went up less than 22%. Over the past three years, the median has leveled off. As of September 30, 2013, the median monthly assessment is \$395.

Special Assessments - Associations	2005	2006	2008	2009	2010	2012
	5	12	11	14	9	7

Special assessments arise for a number of reasons. After Hurricane Katrina (2005), insurance premiums for some associations increased substantially that were not budgeted for at the beginning of the year. One local water district increased rates for condominiums by \$30/unit per month mid-year. This resulted in several special assessments. Major maintenance projects are also subject to special assessments.

Investment Income:	2005	2006	2008	2009	2010	2012
Median	1.29%	1.75%	2.86%	1.91%	1.22%	0.50%
Average	1.50%	2.23%	3.68%	2.11%	1.20%	0.72%

Back in 2004-05, we saw interest rates drop to what we thought were historical lows. Associations earned less than 1.5% on their cash that year. Rates increased until the upheaval in the financial markets in the fall of 2008. Since then, interest rates on cash investments have continued their freefall. As of September 30, 2013, the median has dropped further to 0.4%.

Operating Expenses:

When I prepare financial statements, I categorize operating expenses into one of four main categories – utilities, common area maintenance, insurance and general and administration. I format the income statement to subtotal expenses by these main categories which facilitates developing the data shown below. Expenses such as income taxes and bad debt expense become part of administration while security services are usually included under common area costs.

Utilities:							
Per Unit Per Month	2005	2006	2008	2009	2010	June 2011	Percent Change
Median	\$63.20	\$64.39	\$71.70	\$71.39	\$69.04	\$66.27	4.9%
Average	61.86	65.12	74.80	74.63	69.54	71.00	14.8%
75 Percentile	83.06	90.80	104.35	108.72	97.70	97.04	17.8%
25 Percentile	37.91	37.95	48.12	45.71	37.66	39.04	3.0%

Surprisingly little has changed in this category of costs. Municipal utilities such as water and trash have increased steadily in recent years. Wet winters help reduce common area water costs. Natural gas costs spiked after Katrina but have dropped recently. Electric costs have also remained stable. I recently consulted with an association that was considering establishing a solar electric production facility. The sales personnel worked up numbers based upon a 5% annual increase in electric rates. A review of the past 15 years of electric bills showed an average increase of 1% per year in the association's electric costs. Conservation measures can also play a role in reducing costs.

Edison is planning to introduce "time-of-use" rates now that smart meters have been installed. They will charge more for peak usage periods and less for non-peak periods. Some water districts are increasing their base fixed rates (e.g. Solvang in late 2011). Each association will need to evaluate their own costs as there is a wide variance in what utilities are provided by each association.

Common Area Maintenance							
Per Unit Per Month	2005	2006	2008	2009	2010	2012	Percent Change
Median	\$93.31	\$94.61	\$99.09	\$92.73	\$102.84	\$98.99	6.1%
Average	111.78	138.58	145.95	149.17	156.07	149.63	33.9%
75 Percentile	127.21	151.25	159.99	152.80	157.29	147.29	15.8%
25 Percentile	70.04	65.81	67.42	72.06	76.15	76.80	9.7%

Although the median amount hasn't changed much, the average cost has gone up 34%. Associations with higher monthly assessments tend to have them because of the increased common area services and responsibilities they have, such as landscaping, building maintenance and amenities.

Insurance							
Per Unit Per Month	2005	2006	2008	2009	2010	2012	Percent Change
Median	\$48.64	\$54.22	\$63.42	\$59.64	\$64.94	\$59.27	21.9%
Average	57.59	69.45	76.89	73.88	75.07	68.18	18.4%
75 Percentile	73.78	79.40	100.88	87.74	93.26	83.44	13.1%
25 Percentile	35.66	38.53	49.30	46.10	45.47	42.26	18.5%

Insurance premiums jumped dramatically after Hurricane Katrina in the summer of 2005. Premiums have stabilized or decreased for many associations in the past year or two. Some associations made changes in their coverages.

General & Administrative							
Per Unit Per Month	2005	2006	2008	2009	2010	2012	Percent Change
Median	\$23.98	\$26.04	\$31.52	\$37.26	\$35.24	\$36.62	53.0%
Average	30.81	34.99	47.20	46.43	46.41	46.78	51.8%
75 Percentile	33.29	38.92	46.17	47.44	51.08	57.92	74.0%
25 Percentile	19.92	20.08	23.44	24.72	27.09	24.97	25.3%

I was surprised how much this category had increased since 2005. As noted earlier, bad debt expense is included here and several thousand dollars of uncollectible assessment can have a significant impact on costs. There were no bad debt costs in 2005. Legal rates (and fees) are increasing.

	TOTAL SAMPLE			YOUR ASSOCIATION		
	Median Per Unit	Minimum Per Unit	Maximum Per Unit	Amount Per Unit	Difference to Median	Rank 1 - 69
Size of Association (Units)	50	11	360	18	(32)	65
Cash/Investments	\$4,925	\$1,325	\$24,461	\$5,670	\$745	27
Assessments Receivable	\$57	\$0	\$1,339	\$0	(\$57)	1
Operating Fund	\$589	(\$1,159)	\$3,840	\$1,073	\$485	19
Reserve Fund	\$4,468	(\$408)	\$27,583	\$4,597	\$129	33
Operating Assessment/month	\$290	\$78	\$1,957	\$228	(\$62)	51
% of Total Assessment	71.6%	36.5%	100.0%	63.6%		
Reserve Assessment/month	\$118	\$0	\$316	\$130	\$12	24
% of Total Assessment	28.4%	0.0%	63.5%	36.4%		
Total Assessment/month	\$394	\$150	\$2,266	\$358	(\$36)	43
Investment Income	\$23	\$0	\$964	\$15	(\$9)	50
Rate of Return (Investment Income)	0.50%	0.01%	5.24%	0.26%	-0.24%	51
Utility Expense - per month	\$66	\$8	\$153	\$29	(\$37)	58
% of Operating Assessment	22.7%	4.7%	45.2%	12.7%	-9.9%	
Common Area Maintenance/month	\$99	\$28	\$1,446	\$95	(\$4)	38
% of Operating Assessment	39.3%	15.7%	77.8%	41.5%	2.2%	
Insurance - per month	\$59	\$4	\$227	\$51	(\$8)	44
% of Operating Assessment	21.7%	2.3%	43.4%	22.6%	0.9%	
Administrative Expense/month	\$37	\$4	\$221	\$40	\$4	28
% of Operating Assessment	14.2%	1.3%	45.8%	17.7%	3.5%	
Reserve Expense Paid/month	\$70	\$5	\$2,222	\$17	(\$53)	60
NEW Percent Funded - Reserves	48.10%	13.50%	143.40%	55.30%	7.20%	25
Major Component						
Replacement Cost	\$17,840	\$3,482	\$73,775	\$20,644	\$2,804	27

Data taken from most recent financial statements reviewed by Michael J. Gartzke, CPA

All data is per unit except as noted

Currently 95% of these associations are in South Santa Barbara County

Amounts will be updated each time a review is completed

Median is the amount for which half the associations are above and half are below

Rate of Return is computed as of the end of the year balances - annualized amount may be different

Rankings are from highest (1) to lowest except for assessments receivable

Many variables influence each association's data including age and size of the association;

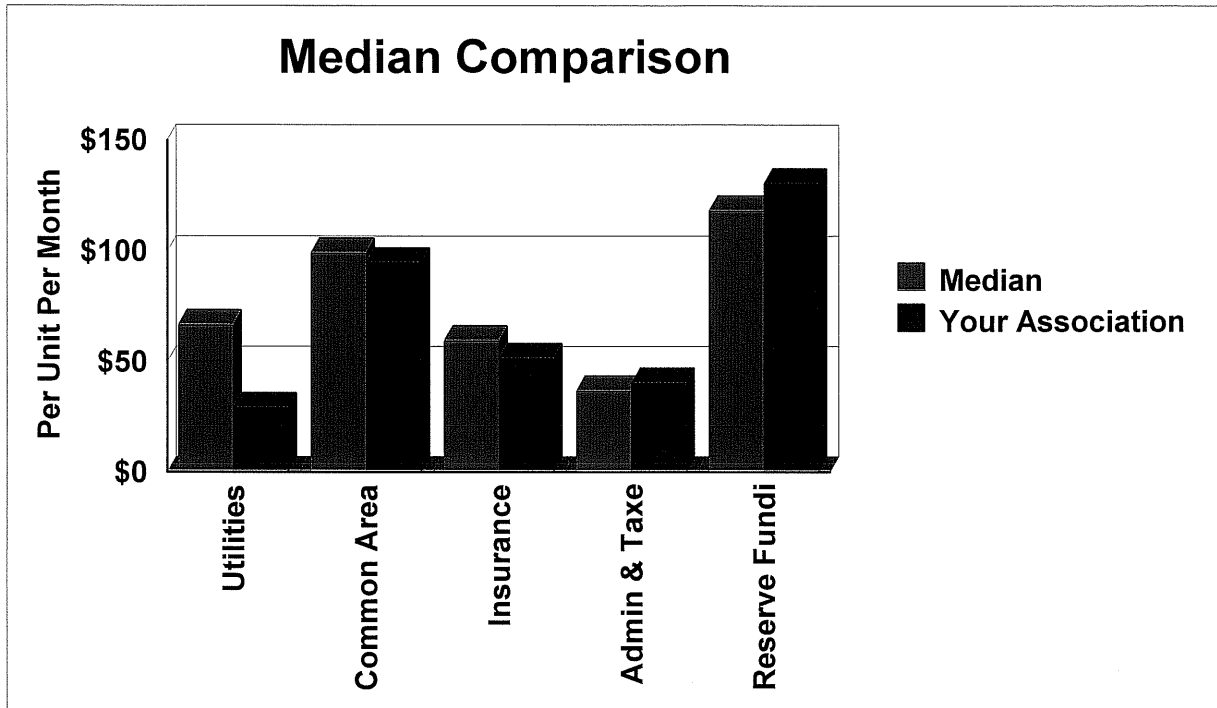
condominium or planned development, maintenance responsibilities, earthquake/flood insurance, common utilities, self-management, specialized services, value of units, etc.

Percentages will not add to 100% because operating expenses will not equal operating assessments

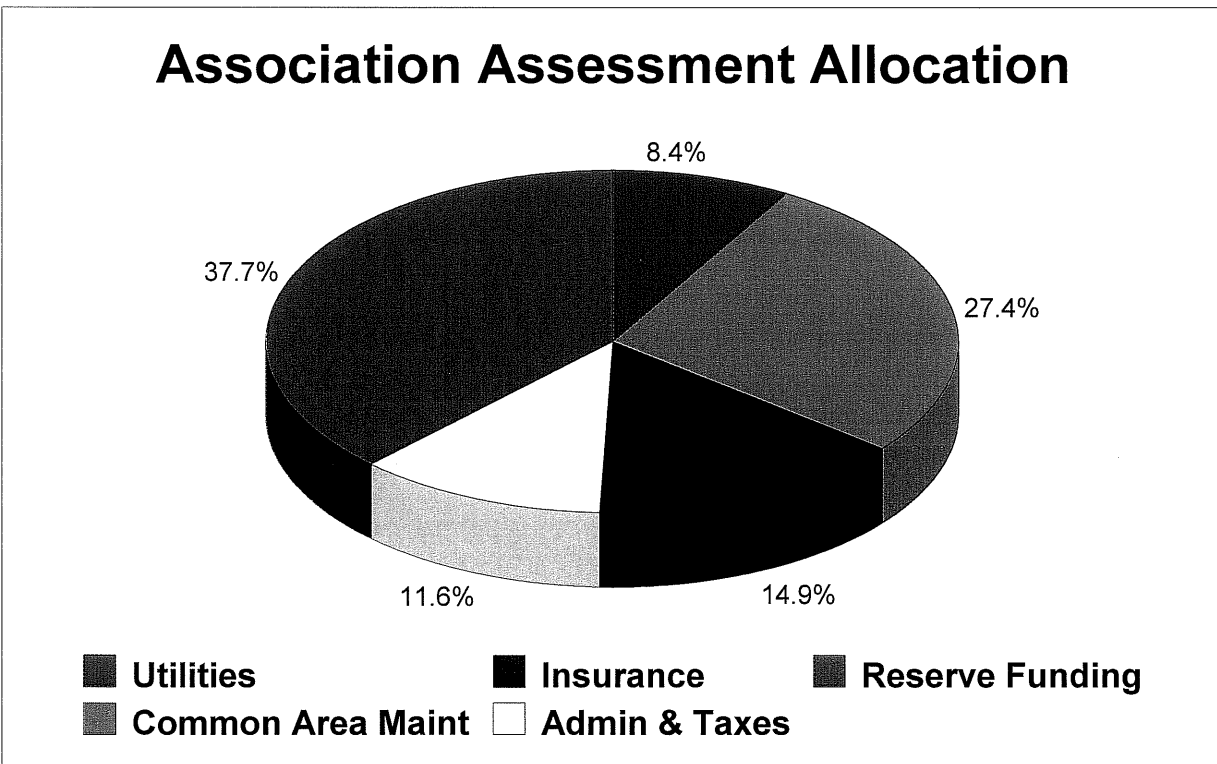
10/18/2013

South Coast HOA

Median Comparison



Association Assessment Allocation



10/18/2013

BUDGET AND FINANCIAL CONSIDERATIONS FOR 2014

Southern California Edison (and perhaps PG&E) – May impose “time-of-use” rates in 2014. If you need electricity during peak periods, your rates may increase. If your primary electric use is higher at night (outside lighting), your rates may decline.

Trash/Refuse – Rates typically increase in South Santa Barbara County 3-4% per year in July. The City of Santa Barbara is using a new rate structure for trash starting July 1, 2013. One association I saw has a 10% decrease while another has a 20% increase. It probably depends on the volume of the containers and the amount of recycling material that is picked up along with the frequency of pickups. I recommend you review your recent bills for major changes and look into collection options that might reduce costs.

Water/Sewer Rates - There are many water districts in Santa Barbara County (and I'm sure other counties, too). The City of Santa Barbara has been increasing rates 3-4% per year for the last several years in July. The Goleta Water District imposed a 16% rate increase in mid-2012 and has scheduled 5% increases for the next 4 years. Solvang passed a huge base rate increase in late 2011. Review your recent billings for rate changes or go online for rate information to estimate future costs.

Goleta Water District billings – Goleta Water is using a new billing system. They are getting progressively further behind. At my home, they are two full months behind in their billings. Don't budget for 2014 based upon what you have spent in 2013 because this year is incomplete and understated.

Drought Considerations – We have had 3 years of below-average rainfall. Lake Cachuma is at 45% capacity. Should we have another year of low rainfall, there could be significant negative impacts on water usage/landscape costs, etc.

First Bank HOA Services Merger with Union Bank – Many area associations bank with First Bank Association Services. In addition, many associations also have bank accounts with Union Bank as a result of the Santa Barbara Bank & Trust merger in late 2011. This will affect the amount of FDIC coverage you have if you have accounts at both banks. The following is a response by First Bank to an inquiry I recently made to them.

“The merge will take place the weekend of Nov. 22nd. Until that date we are still two separate banks with our own FDIC limits. Effective Nov. 25th First Bank Association Services will be Union Bank. At that time the FDIC insurance will be for all combined accounts (First Bank merged accounts and previous Union accounts). They will be insured for a total of \$250,000. Union does offer CD Plus accounts that are similar to CDARS. CD Funds are placed in multiple banks to insure over \$250,000. “